Tennessee Valley Authority

(Wholly Owned Corporate Agency and Instrumentality of the United States of America)

Quarterly Report

For the quarterly period ended March 31, 2004

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Tennessee Valley Authority

Quarterly Report

For the quarterly period ended March 31, 2004

This document contains the unaudited Quarterly Report of TVA's Power Program and All Programs for the quarterly period ended March 31, 2004 (this "Quarterly Report"). TVA is not required to register securities under the Securities Act of 1933 or to make periodic reports to the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934. Accordingly, TVA does not intend to file this report with the SEC. In addition, several portions of this Quarterly Report contain forward-looking statements, and reference is made to page one regarding such statements. This report should be read in conjunction with the 2003 Information Statement dated as of February 4, 2004 (as may be amended from time to time, the "2003 Information Statement"), which is incorporated herein by this reference.

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Forward-Looking Statements

This Quarterly Report contains forward-looking statements relating to future events and future performance. Any statements regarding expectations, beliefs, plans, projections, estimates, objectives, intentions, assumptions, or otherwise relating to future events or performance may be forward-looking.

In certain cases, forward-looking statements can be identified by the use of words such as “may,” “will,” “should,” “expect,” “anticipate,” “believe,” “intend,” “project,” “plan,” “predict,” “assume,” “estimate,” “objective,” “possible,” “potential,” or other similar expressions.

Some examples of forward-looking statements include statements regarding TVA’s projections of future power and energy requirements; future costs related to environmental compliance; impacts of potential legislation on TVA and the likelihood of enactment of such legislation; strategic objectives; anticipated availability of nuclear waste storage facilities; projections of nuclear decommissioning costs; and impacts of pending litigation and various administrative orders which have been or may be issued.

Although TVA believes that the assumptions underlying the forward-looking statements are reasonable, TVA does not guarantee the accuracy of these statements. Numerous factors could cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things, new laws, regulations, and administrative orders, especially those related to restructuring of the electric power industry and various environmental matters; increased competition among electric utilities; legal and administrative proceedings affecting TVA; the financial and economic environment; performance of TVA’s generation and transmission assets; fuel prices; demand for electricity; changes in technology; changes in the price of power; loss of any significant customers or suppliers; creditworthiness of counterparties; weather conditions and other natural phenomena; changes in accounting standards; and unforeseeable events. New factors emerge from time to time, and it is not possible for management to predict all such factors or to assess the extent to which any factor or combination of factors may impact TVA’s business or cause results to differ materially from those contained in any forward-looking statement.

TVA undertakes no obligation to update any forward-looking statement to reflect developments that occur or come to TVA’s attention after the statement is made.

FINANCIAL INFORMATION

STATEMENTS OF INCOME–POWER PROGRAM (unaudited)
(in millions)

	Three months ended March 31		Six months ended March 31	
Operating revenues	2004	2003	2004	2003
Sales of electricity				
Municipalities and cooperatives	$ 1,610	$ 1,526	$ 3,131	$ 2,972
Industries directly served	215	217	413	403
Federal agencies and other	30	28	67	59
Other revenue	24	21	45	40
Total operating revenues	1,879	1,792	3,656	3,474
Operating expenses				
Fuel and purchased power	518	545	948	954
Operating and maintenance	567	480	1,123	968
Depreciation and accretion	274	264	546	527
Tax-equivalents	84	81	168	163
Loss on project cancellation (see note 1)	–	–	36	–
Total operating expenses	1,443	1,370	2,821	2,612
Operating income	436	422	835	862
Other income, net	11	3	15	6
Interest expense				
Interest on debt	345	347	693	700
Amortization of debt discount, issue, and reacquisition costs, net	6	6	13	14
Allowance for funds used during construction	(25)	(18)	(47)	(33)
Net interest expense	326	335	659	681
Income before cumulative effects of accounting changes	121	90	191	187
Cumulative effect of change in accounting for unbilled revenue	–	–	–	412
Cumulative effect of change in accounting for asset retirement obligations	–	–	–	(195)
Net income	$ 121	$ 90	$ 191	$ 404

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS—POWER PROGRAM (unaudited)
(in millions)

	Three months ended March 31		Six months ended March 31	
	2004	2003	2004	2003
Cash flows from operating activities				
Net power income	$ 121	$ 90	$ 191	$ 404
Items not requiring (providing) cash				
Depreciation, amortization, and accretion	266	277	556	561
Allowance for funds used during construction	(25)	(18)	(47)	(33)
Nuclear fuel amortization	30	29	61	64
Cumulative effect of accounting changes	–	–	–	(217)
Loss on project cancellation	–	–	36	–
Other, net	21	11	58	33
Changes in current assets and liabilities				
Accounts receivable, net	32	32	68	183
Inventories and other	(15)	(6)	(8)	(27)
Accounts payable and accrued liabilities	93	92	(118)	(104)
Accrued interest	112	101	32	5
Proceeds from energy prepayments	–	15	1,504	47
Refueling outage costs	(28)	(33)	(81)	(36)
Other	(11)	(2)	(21)	(14)
Net cash provided by operating activities	596	588	2,231	866
Cash flows from investing activities				
Construction expenditures	(414)	(383)	(802)	(782)
Allowance for funds used during construction	25	18	47	33
Nuclear fuel	(52)	(39)	(53)	(108)
Investments	101	(3)	101	147
Other, net	1	2	(3)	(5)
Net cash (used in) investing activities	(339)	(405)	(710)	(715)
Cash flows from financing activities				
Long-term debt				
Issues	664	142	757	298
Redemptions and repurchases	(80)	(381)	(495)	(381)
Short-term redemptions, net	(626)	37	(1,810)	(223)
Proceeds from combustion turbine financing	–	–	–	163
Proceeds from call monetization	–	175	–	175
Payments on combustion turbine financing	(17)	(23)	(20)	(33)
Payments on equipment financing	(29)	–	(29)	–
Financing costs, net	94	(2)	93	(5)
Payments to U.S. Treasury	(9)	(10)	(19)	(21)
Net cash (used in) financing activities	(3)	(62)	(1,523)	(27)
Net change in cash and cash equivalents	254	121	(2)	124
Cash and cash equivalents at beginning of period	276	400	532	397
Cash and cash equivalents at end of period	$ 530	$ 521	$ 530	$ 521

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS—POWER PROGRAM AND ALL PROGRAMS (unaudited)
(in millions)

	Power Program		All Programs	
ASSETS	**March 31 2004**	**September 30 2003**	**March 31 2004**	**September 30 2003**
Current assets				
Cash and cash equivalents	$ 530	$ 532	$ 531	$ 533
Accounts receivable, net	926	994	926	994
Inventories at average cost and other				
Fuel	218	219	218	219
Other, net	306	308	306	308
Total current assets	1,980	2,053	1,981	2,054
Property, plant, and equipment				
Completed plant	32,938	32,626	33,948	33,637
Less accumulated depreciation	(12,713)	(12,251)	(13,035)	(12,568)
Net completed plant	20,225	20,375	20,913	21,069
Construction in progress	1,984	1,619	1,984	1,619
Deferred nuclear generating units	4,112	4,110	4,112	4,110
Nuclear fuel and capital leases	515	530	515	530
Total property, plant, and equipment	26,836	26,634	27,524	27,328
Investment funds	900	905	900	905
Deferred charges and other assets				
Loans and other long-term receivables	175	168	198	191
Debt issue and reacquisition costs	235	241	235	241
Other deferred charges	760	531	760	531
Regulatory assets	1,771	1,861	1,771	1,861
Total deferred charges and other assets	2,941	2,801	2,964	2,824
Total assets	$ 32,657	$ 32,393	$ 33,369	$ 33,111
LIABILITIES AND PROPRIETARY CAPITAL				
Current liabilities				
Accounts payable	$ 624	$ 776	$ 625	$ 777
Accrued liabilities	225	232	225	232
Current portion of lease/leaseback obligations	35	68	35	68
Current portion of energy prepayment obligations	106	5	106	5
Accrued interest	431	404	431	404
Short-term debt	270	2,080	270	2,080
Current maturities of long-term debt	2,486	2,336	2,486	2,336
Total current liabilities	4,177	5,901	4,178	5,902
Other liabilities				
Deferred liabilities	2,292	2,177	2,292	2,177
Asset retirement obligations	1,733	1,725	1,733	1,725
Lease/leaseback obligations	1,155	1,170	1,155	1,170
Energy prepayment obligations (see note 1)	1,402	42	1,402	42
Total other liabilities	6,582	5,114	6,582	5,114
Long-term debt				
Public bonds	20,573	20,459	20,573	20,459
Unamortized discount and other adjustments	(35)	(258)	(35)	(258)
Total long-term debt	20,538	20,201	20,538	20,201
Total liabilities	31,297	31,216	31,298	31,217
Commitments and contingencies (see note 6)				
Proprietary capital				
Appropriation investment	458	468	4,813	4,823
Retained earnings	965	783	965	783
Accumulated other comprehensive loss	(63)	(74)	(63)	(74)
Accumulated net expense of nonpower programs	–	–	(3,644)	(3,638)
Total proprietary capital	1,360	1,177	2,071	1,894
Total liabilities and proprietary capital	$ 32,657	$ 32,393	$ 33,369	$ 33,111

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS—ALL PROGRAMS (unaudited)
(in millions)

	Three months ended March 31		Six months ended March 31	
	2004	2003	2004	2003
Cash flows from operating activities				
Net power income	$ 121	$ 90	$ 191	$ 404
Net expense of nonpower programs	(3)	(2)	(6)	(5)
Items not requiring (providing) cash				
Depreciation, amortization, and accretion	269	279	562	566
Allowance for funds used during construction	(25)	(18)	(47)	(33)
Nuclear fuel amortization	30	29	61	64
Cumulative effect of accounting changes	–	–	–	(217)
Loss on project cancellation	–	–	36	–
Other, net	21	11	58	33
Changes in current assets and liabilities				
Accounts receivable, net	32	32	68	183
Inventories and other	(15)	(6)	(8)	(27)
Accounts payable and accrued liabilities	93	92	(118)	(104)
Accrued interest	112	101	32	5
Proceeds from energy prepayments	–	15	1,504	47
Refueling outage costs	(28)	(33)	(81)	(36)
Other	(11)	(2)	(21)	(14)
Net cash provided by operating activities	596	588	2,231	866
Cash flows from investing activities				
Construction expenditures	(414)	(383)	(802)	(782)
Allowance for funds used during construction	25	18	47	33
Nuclear fuel	(52)	(39)	(53)	(108)
Investments	101	(3)	101	147
Other, net	1	1	(3)	(6)
Net cash (used in) investing activities	(339)	(406)	(710)	(716)
Cash flows from financing activities				
Long-term debt				
Issues	664	142	757	298
Redemptions and repurchases	(80)	(381)	(495)	(381)
Short-term redemptions, net	(626)	37	(1,810)	(223)
Proceeds from combustion turbine financing	–	–	–	163
Proceeds from call monetization	–	175	–	175
Payments on combustion turbine financing	(17)	(23)	(20)	(33)
Payments on equipment financing	(29)	–	(29)	–
Financing costs, net	94	(2)	93	(5)
Payments to U.S. Treasury	(9)	(10)	(19)	(21)
Net cash (used in) financing activities	(3)	(62)	(1,523)	(27)
Net change in cash and cash equivalents	254	120	(2)	123
Cash and cash equivalents at beginning of period	277	403	533	400
Cash and cash equivalents at end of period	$ 531	$ 523	$ 531	$ 523

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN PROPRIETARY CAPITAL—POWER PROGRAM (unaudited)
(in millions)

	Three months ended March 31		Six months ended March 31	
	2004	2003	2004	2003
Retained earnings reinvested at beginning of period	$ 848	$ 658	$ 783	$ 349
Net income	121	90	191	404
Return on appropriation investment	(4)	(5)	(9)	(10)
Retained earnings reinvested at end of period	965	743	965	743
Accumulated other comprehensive (loss) at beginning of period	(59)	(224)	(74)	(150)
Other comprehensive (loss)/income	(4)	(7)	11	(81)
Accumulated other comprehensive (loss) at end of period	(63)	(231)	(63)	(231)
Appropriation investment at beginning of period	463	483	468	488
Return of appropriation investment	(5)	(5)	(10)	(10)
Appropriation investment at end of period	458	478	458	478
Proprietary capital at end of period	$ 1,360	$ 990	$ 1,360	$ 990

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN PROPRIETARY CAPITAL—NONPOWER PROGRAMS (unaudited)
(in millions)

	Three months ended March 31		Six months ended March 31	
	2004	2003	2004	2003
Proprietary capital at beginning of period	$ 714	$ 726	$ 717	$ 729
Net expense	(3)	(2)	(6)	(5)
Proprietary capital at end of period	$ 711	$ 724	$ 711	$ 724

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME—POWER PROGRAM (unaudited)
(in millions)

	Three months ended March 31		Six months ended March 31	
	2004	2003	2004	2003
Net power income	$ 121	$ 90	$ 191	$ 404
Other comprehensive (loss)/income	(4)	(7)	11	(81)
Comprehensive income	$ 117	$ 83	$ 202	$ 323

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF NET EXPENSE AND COMPREHENSIVE LOSS—NONPOWER PROGRAMS (unaudited)
(in millions)

	Three months ended March 31		Six months ended March 31	
	2004	2003	2004	2003
Water and land stewardship	$ (3)	$ (2)	$ (6)	$ (5)
Net expense and comprehensive loss	$ (3)	$ (2)	$ (6)	$ (5)

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS (unaudited)

1. Summary of Significant Accounting Policies

Organization

TVA is a wholly owned corporate agency and instrumentality of the United States. It was established by Congress in 1933 by the TVA Act with the objective of developing the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense by providing: (1) an ample supply of power within the region, (2) navigable channels and flood control for the Tennessee River System, and (3) agricultural and industrial development and improved forestry in the region. TVA carries out these regional and national responsibilities in a service area that includes most of Tennessee, northern Alabama, northeastern Mississippi, and southwestern Kentucky and small portions of Georgia, North Carolina, and Virginia.

Substantially all TVA revenues and assets are attributable to its power program. The revenues and expenses of the power program have historically been segregated and distinct from TVA's nonpower programs. The TVA Act requires the power program to be self-supporting from power revenues and proceeds from power program financings.

Power rates are established by the TVA Board of Directors ("Board") as authorized by the TVA Act. The TVA Act requires TVA to charge rates for power that, among other things, will produce gross revenues sufficient to provide funds for operation, maintenance, and administration of its power system; payments to states and counties in lieu of taxes; debt service on outstanding indebtedness; and annual payments to the U.S. Treasury in repayment of and as a return on the government's appropriation investment in TVA's power facilities. Rates set by the Board are not subject to review or approval by any state or federal regulatory body. In a future restructured electric power industry, it is possible, however, that the ability of the Board to set TVA's rates as specified in the TVA Act could be adversely affected by legislative changes or by competitive pressures.

Basis of Presentation

TVA prepares its interim financial statements in conformity with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Because the accompanying unaudited interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements, they should be read in conjunction with the audited financial statements for the year ended September 30, 2003, and the notes thereto.

The amounts included in the interim financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary to fairly present TVA's financial position and results of operations for the interim periods. Due to seasonal weather variations and the timing of planned maintenance and refueling outages of electric generating units and other factors, the results of operations for interim periods are not necessarily indicative of amounts expected for the entire year.

In preparing financial statements that conform to generally accepted accounting principles, management must make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses. Actual results could differ from those estimates.

Fiscal Year

TVA's fiscal year ends September 30. Unless otherwise indicated, years (2004, 2003, etc.) refer to TVA's fiscal years.

Accounts Receivable

Accounts receivable consist primarily of amounts due from power sales. The table below summarizes the type and amount of receivables:

	At March 31 2004	At September 30 2003
	(in millions)	
Power receivables billed	$ 274	$ 304
Power receivables unbilled	621	655
Total power receivables	895	959
Other receivables	39	43
Allowance for uncollectible accounts	(8)	(8)
Net accounts receivable	$ 926	$ 994

Regulatory Assets

Regulatory assets represent costs capitalized under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, *Accounting for the Effects of Certain Types of Regulation*. TVA's regulatory assets consist of certain charges related to the closure and removal of nuclear generating units, mark-to-market valuation adjustments of derivative contracts, and an adjustment related to minimum pension liability. TVA's regulatory assets consist of the following:

	At March 31 2004	At September 30 2003
	(in millions)	
Decommissioning costs	$ 700	$ 783
Changes in fair value of derivative contracts	43	50
Adjustment to accrue minimum pension liability	1,028	1,028
Total	$ 1,771	$ 1,861

In addition, TVA has approximately $4.1 billion of deferred nuclear plant costs.

Energy Prepayment Obligations

During October of 2002, TVA introduced an energy prepayment program, the Discounted Energy Units ("DEU") program. Annually for years 2003 to 2007, TVA customers may purchase DEU generally in $1 million increments, which entitles them to a $0.025/kWh discount on a specified quantity of firm power over a period of years (5, 10, 15, or 20) for each kilowatt-hour in the prepaid block. The remainder of the price of the kilowatt-hours delivered to the customer is due upon billing. This program allows customers to use the DEU to reduce their overall costs and provides a higher return for available cash.

As of March 31, 2004, TVA had entered into sales agreements for 47.25 DEU totaling $47.25 million for the 2003 program and sales agreements of 7.25 DEU totaling $7.25 million for the 2004 program. TVA is accounting for the prepayment proceeds as unearned revenue and reported the obligations to deliver power as Energy prepayment obligations and Current portion of energy prepayment obligations on the March 31, 2004 Balance Sheets. TVA recognizes revenue as electricity is delivered to customers, based on the ratio of units of kilowatt-hours delivered to total units of kilowatt-hours under contract. As of March 31, 2004, over $6 million has been applied against power billings on a cumulative basis during the life of the program, of which $2.8 million is attributable to 2004 activity.

During 2004, TVA and its largest customer, Memphis Light, Gas & Water ("MLGW"), entered into an energy prepayment agreement under which MLGW prepaid TVA $1.5 billion for the costs of electricity to be delivered by TVA to MLGW over a period of 180 months. In exchange for this prepayment, MLGW receives a credit on its monthly bills during this period. The City of Memphis issued bonds with net proceeds of $1.5 billion, which were used to fund this prepay arrangement. The principal and interest on the bonds will be payable from MLGW's pledged revenues. The bonds are not obligations of TVA and are not secured by any TVA revenues or property. TVA received proceeds of $1.5 billion from this transaction in December 2003, accounted for these proceeds as unearned revenue, and is reporting the obligation to deliver power as Energy prepayment obligations and Current portion of energy prepayment obligations on the March 31, 2004 Balance Sheets. TVA recognizes revenue as electricity is delivered to customers based on the ratio of units of kilowatt-hours delivered to total units of kilowatt-hours under contract. For the six months ended March 31, 2004, over $40 million was recognized as revenue.

Asset Retirement Obligations

In accordance with the provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations*, TVA recognizes legal obligations associated with the future retirement of certain tangible long-lived assets. TVA only records estimates of such disposal costs at the time the legal obligation arises or costs are actually incurred. In February 2004, TVA made revisions to the amount and timing of certain cash flow estimates related to its nuclear asset retirement obligations. The revisions in cost were based on new engineering studies performed in accordance with requirements of the Nuclear Regulatory Commission. The effect of the changes in estimates produced obligations that were less than the amounts originally recorded on an accreted basis. Accordingly, TVA made adjustments in the recorded amounts to properly reflect such revised balances based on the latest cost estimates. The adjustments resulted in an aggregate decrease of $40 million in the asset retirement obligation, a $12 million reduction in the asset base, a $5 million reduction in accumulated depreciation, and a decrease of $33 million in the originally recorded regulatory asset, which TVA created in accordance with SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*. Therefore, the result of the changes described did not impact net income for three and six month periods ended March 31, 2004.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") published Interpretation No. 46, *Consolidation of Variable Interest Entities*, which was revised by Interpretation No. 46R ("46R") in December 2003. This interpretation explains how to identify variable interest entities ("VIEs") and how an enterprise assesses its interests in a VIE to decide whether to consolidate that entity. It also clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The interpretation applies to nonpublic enterprises, and it becomes effective for TVA beginning October 1, 2005, for VIEs created on or before December 31, 2003, and immediately for VIEs created after December 31, 2003. At this time, TVA is in the process of evaluating the requirements of this interpretation and does not yet know the impact of its implementation, which may or may not be material to its results of operations or financial position.

In December 2003, the FASB issued SFAS No. 132 (revised), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, which improves financial statement disclosures for defined benefit plans and replaces existing FASB disclosure requirements for pensions. The guidance is effective for fiscal years ending after December 15, 2003, and for quarters beginning after December 15, 2003. TVA adopted this standard for the quarter beginning January 1, 2004 (see note 5).

Project Cancellation

In December 2003, TVA was notified that Regenesys Technologies Limited ("RTL") would not go forward with manufacturing of the fuel cells to be installed in the partially completed Regenesys energy storage plant in Columbus, Mississippi. RTL has made a business decision to close down all of its operations, making it impractical for TVA to complete the facility. After an evaluation of the project, TVA determined there were no other technologies that could be installed or other uses the facility could serve for the area. TVA's investment in the Regenesys project was approximately $36 million which was included in Construction in progress on the March 31, 2004 Balance Sheets and, accordingly, TVA recognized a $36 million loss on the cancellation of the Regenesys project during the first quarter of 2004. On April 30, 2004, TVA received reimbursement from RTL for early termination of the contract in the amount of $15 million, which reduced the net loss to $21 million on the cancellation of the Regenesys project.

Reduction in Workforce

Organizations within TVA are performing program and staffing reviews to identify surplus staffing situations. In areas where surplus staffing exists, TVA has asked for employees to apply for voluntary resignations beginning in February 2004. To the extent there are not enough volunteers, TVA is conducting an involuntary Reduction in Force ("RIF"). TVA expects the majority of voluntary resignations and involuntary RIFs to occur in 2004. Implementation of the change in staffing levels is estimated to cost between $27 million and $36 million in termination benefits. TVA has recognized expense in the amount of $23 million for termination benefits incurred as of March 31, 2004.

Other

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation.

2. Proprietary Capital

Accumulated Other Comprehensive Loss

SFAS No. 130, *Reporting Comprehensive Income*, requires the disclosure of comprehensive income (loss) to reflect changes in capital that result from transactions and economic events from nonowner sources. The losses for the six months ended March 31, 2004, are due to mark-to-market valuation adjustments for certain derivative instruments.

Total Other Comprehensive Income (Loss) Activity—Power Program
(in millions)

	Three months ended March 31		Six months ended March 31	
	2004	2003	2004	2003
Accumulated other comprehensive loss at beginning of period	$ (59)	$ (224)	$ (74)	$ (150)
Changes in fair value of interest rate swap	(12)	(19)	4	10
Changes in fair value of foreign currency swaps	7	12	6	(91)
Changes in fair value of emission allowance call options	1	–	1	–
Accumulated other comprehensive loss at end of period	$ (63)	$ (231)	$ (63)	$ (231)

3. Debt Securities

TVA issues power bonds, notes, and other evidences of indebtedness pursuant to Section 15d of the TVA Act and pursuant to the Basic Tennessee Valley Authority Power Bond Resolution. Power bonds in each series must be further authorized by a supplemental resolution.

TVA's power bonds, notes, and other evidences of indebtedness are not obligations of the United States of America, and the United States of America does not guarantee the payment of the principal of, or interest on, any of TVA's power bonds, notes, or other evidences of indebtedness.

From October 1, 2003, to March 31, 2004, TVA issued $207 million of electronotes® with an average interest rate of 4.74 percent and also reopened its 2002 Series A power bonds for an additional $550 million principal amount at an effective interest rate of 4.22 percent due May 23, 2012, with a put date of May 24, 2004. During this period, one issue of power bonds totaling $400 million with an interest rate of 5.00 percent matured. TVA also redeemed $45 million of electronotes® carrying an average interest rate of 5.57 percent as well as two issues of power bonds of $25 million each, one with an interest rate of 7.50 percent and one with an interest rate of 7.65 percent. TVA also issued discount notes of nearly $7 billion while redeeming $8.8 billion of discount notes. The average interest rate on the discount notes issued was 0.98 percent.

The table below summarizes TVA's debt securities activity for the period from October 1, 2003, to March 31, 2004.

Activity from October 1, 2003 to March 31, 2004
(in millions)

Redemptions/Maturities:	Date	Principal Amount	Interest Rate
electronotes®	First Quarter 2004	$ 15	5.70%
	Second Quarter 2004	30	5.50%
1998 Series I	December 18, 2003	400	5.00%
2000C QUINTS	February 18, 2004	25	7.50%
2000D QUINTS	February 18, 2004	25	7.65%
		$ 495	
Issues:			
electronotes®	First Quarter 2004	$ 93	4.50%-5.63%
	Second Quarter 2004	114	3.20%-5.13%
2002 Series A (reopening)	March 4, 2004	550	4.22%
		$ 757	

In the fourth quarter of 2003, TVA monetized the call option on a public bond issue by entering into a swaption transaction (see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" — "*Liquidity and Capital Resources*" — "*Monetization of Call Options*" in Part II of the 2003 Information Statement). In February 2004, the counterparty to the swaption transaction exercised its option to enter into a swap with TVA, effective April 10, 2004, where TVA will be required to make fixed rate payments to the counterparty of 6.875 percent and the counterparty will be required to make floating payments to TVA based on London Interbank Offered Rate ("LIBOR"). These payments will be based on a notional principal amount of $476.5 million, and the parties will begin making these payments on June 15, 2004.

4. Risk Management Activities and Derivative Transactions

TVA is exposed to market risks including changes in interest rates, foreign currency exchange rates, and certain commodity and equity market prices. To manage the volatility attributable to these exposures, TVA has entered into various nontrading derivative transactions, principally an interest rate swap agreement, foreign currency swap contracts, and option and swaption contracts.

The recorded amounts of these derivative financial instruments are as follows:

Mark-to-Market Values of Derivative Transactions
(in millions)

	Asset/(Liability) At March 31 2004	Asset/(Liability) At September 30 2003
Interest rate swap	$ 49	$ 42
Currency swaps:		
Deutschemark (DM1.5 billion)	(59)	(149)
Sterling (GBP200 million)	13	(9)
Sterling (GBP250 million)	77	44
Sterling (GBP150 million)	28	11
Swaptions:		
Call provision on $1 billion bond issue	(225)	(207)
Call provision on $476 million bond issue	(124)	(111)
Debt-embedded calls:		
Call provision on $1 billion bond issue	192	169
Call provision on $476 million bond issue	103	91
Coal contracts	199	45
Power purchase contracts	(43)	(50)

5. Benefit Plans

During the second quarter of 2004, TVA adopted SFAS No.132 (revised), *Employers' Disclosures about Pensions and Other Postretirement Benefits*. The statement requires entities with defined benefit plans to provide more details about benefit plans on an annual basis as well as selected information on a quarterly basis.

TVA's net periodic pension, postretirement, and postemployment benefit costs are determined using assumptions as of the beginning of each year. Effective for the September 30, 2003, measurement date and calculation of the pension and postretirement funded status, the discount rate utilized in the valuation of the obligations was 6.0 percent. The cost of living rate was 2.3 percent to reflect current market and demographic conditions. TVA maintained its assumption related to mortality based on results of an experience study performed during the prior year which underlies the continued use of the 1983 mortality tables.

The TVA Board approved a contribution of $22.5 million to the pension plan for 2004. As of March 31, 2004, a payment of $11.25 million has been made with the balance to be paid in September 2004 (see note 6).

6. Debt, Commitments, and Contingencies

The debt maturities and estimated cash requirements for TVA as of March 31, 2004, are as follows:

(in millions)	2004*	2005	2006	2007	2008	Thereafter	Total
Debt	$ 2,756	$ 2,000	$ 2,621	$ 977	$ 91	$ 14,884	$ 23,329
Leases	27	54	50	45	39	94	309
Lease/leaseback	36	84	85	85	89	1,384	1,763
Power purchase obligations	79	150	150	129	114	2,618	3,240
Other purchase commitments	795	629	454	259	92	96	2,325
Fuel purchase obligations	710	962	743	401	333	686	3,835
Pension contribution	11	–	–	–	–	–	11
Total	$ 4,414	$ 3,879	$ 4,103	$ 1,896	$ 758	$ 19,762	$ 34,812

In addition to the cash requirements above, TVA has contractual obligations related to energy prepayments (see note 1—*Energy Prepayment Obligations*).

(in millions)	2004*	2005	2006	2007	2008	Thereafter	Total
Energy prepayment obligations	$ 53	$ 105	$ 106	$ 106	$ 105	$ 1,033	$ 1,508

* Period April 1 – September 30, 2004

7. Legal Proceedings

In the fall of 1999, the Environmental Protection Agency ("EPA") commenced judicial or administrative actions against a number of utilities in the eastern United States, including TVA, alleging that they modified their coal-fired units without complying with the Clean Air Act's ("CAA") new source review ("NSR") requirements. EPA issued an administrative order directing TVA to put new source controls on 14 of its coal-fired units and evaluate whether more controls should be installed on other units. TVA challenged the validity of this order, and on June 24, 2003, the U.S. Court of Appeals for the Eleventh Circuit ("Eleventh Circuit") issued its decision in the case. Although the Eleventh Circuit did not rule on the merits of the case, the court held that the procedure used by EPA against TVA was unconstitutional because it allowed EPA to decide that a regulated party like TVA has violated the law and is liable for severe penalties without ever allowing the regulated party to present evidence on whether the law was in fact violated.

On February 13, 2004, the United States Solicitor General, on behalf of EPA, filed a petition seeking Supreme Court review of the Eleventh Circuit's decision. The Solicitor General's petition argues that the Eleventh Circuit's constitutional holding is based on "a mistaken construction" of the CAA provisions for EPA orders and that the Eleventh Circuit should have held that TVA's petition for review could not be settled in a court of law because the petition presented only a dispute between two Executive Branch agencies. The Solicitor General's petition also argues that the Eleventh Circuit erred in holding that TVA had independent litigating authority and was authorized to initiate a judicial review proceeding over the objection of the Attorney General. On March 29, 2004, TVA filed its reply opposing the Solicitor General's petition seeking Supreme Court review, and on May 3, 2004, the Supreme Court denied the Solicitor General's petition for review, leaving intact the Eleventh Circuit's decision in TVA's favor. EPA, among other things, may now sue TVA in district court to try to prove its case on the merits.

The National Parks Conservation Association ("NPCA") and the Sierra Club filed cases in two federal district courts in 2001 raising the same NSR allegations at TVA's Bull Run Fossil Plant and Colbert Fossil Plant Unit 5 as were raised in the EPA proceeding found unconstitutional by the Eleventh Circuit. Both cases were stayed pending resolution of matters raised in the Eleventh Circuit NSR litigation discussed above, and the stays continue in effect.

Environmental groups are taking legal action against TVA, as well as against other utilities across the country, for allegedly violating opacity limits applicable to coal-fired plants.

- The Alabama Environmental Council and the Sierra Club filed a lawsuit in federal district court in Florence, Alabama, alleging that TVA violated CAA opacity limits applicable to Colbert Fossil Plant between July 1, 1997, and June 30, 2002. The groups seek a court order that could require TVA to incur substantial costs in addition to the costs TVA is already planning to incur for environmental controls, and to pay civil penalties of up to approximately $250 million. On February 20, 2003, the federal district court dismissed the claim against TVA for civil penalties. These groups are still seeking a court order (1) declaring TVA in violation of opacity limits and (2) requiring TVA to bring the Colbert plant into continuous compliance with these limits. This case had been set for trial in the fall of 2003. However, the case was reassigned to another district court judge, and the new judge has not set a trial date.

- On July 25, 2003, TVA received a notice of intent to sue from Our Children's Earth Foundation ("OCE"). OCE alleges that TVA violated the NSR requirements of the CAA by undertaking major modifications of TVA's Allen Unit 3, Bull Run, Cumberland Units 1 and 2, Kingston Units 6 and 8, John Sevier Unit 3, Paradise Units 1, 2, and 3, Shawnee Units 1 and 4, Colbert Unit 5, and Widows Creek Unit 5. OCE also alleges the CAA new source performance standards at Colbert Unit 5 and the operations at TVA's Johnsonville Fossil Plant have not met the applicable opacity requirements. This notice does not allege a specific amount of damages. OCE's allegations about Bull Run and Colbert Unit 5 are already the subject of litigation in federal district courts initiated by the NPCA and the Sierra Club. Both of these cases were stayed pending resolution of the matters raised in the Eleventh Circuit NSR litigation discussed above. OCE stated in its notice that they intend to file suit anytime after 60 days from the date of their letter, but they have not done so to date.

- The Sierra Club gave notice in a September 26, 2002, letter that it intends to sue TVA for violating CAA opacity limits applicable to the John Sevier and Kingston Fossil Plants. The notice claims that TVA violated opacity standards at the two plants from July 1, 1997, to the present. The alleged opacity violations substantially overlap those that were challenged in a lawsuit filed by the NPCA three years ago in federal court in Knoxville, Tennessee. TVA ultimately prevailed in the previous lawsuit.

On December 28, 2001, Bowater Incorporated and Bowater Newsprint South, Inc. (together, “Bowater”) filed a lawsuit against TVA in federal court in Knoxville, Tennessee challenging TVA’s charges for Economy Surplus Power (“ESP”) and Testing and Restart Power (“TRP”) for two Bowater plants. In its complaint, Bowater alleges that in violation of the contract provision which states that TVA will charge ESP and TRP customers based on TVA’s actual hourly incremental cost of providing ESP (1) TVA included certain alleged non-incremental costs in the prices for ESP and TRP and (2) when calculating such prices TVA used the cost of providing the most expensive 100 megawatts of ESP sold during a given hour instead of the average cost in that hour of serving the entire ESP load. The complaint also alleges that TVA has been unjustly enriched as a result of these overcharges. The lawsuit seeks, among other things, compensatory damages in excess of $39 million and interest of more than $15 million. The case is set for trial in January 2005.

On August 31, 1999, Birmingham Steel Corporation filed a lawsuit in the U.S. District Court for the Northern District of Alabama alleging that TVA overcharged for ESP during the summer of 1998. The lawsuit was filed as a class action on behalf of industrial customers who participated in TVA’s ESP program. Under ESP contracts, the hourly ESP energy price is calculated using TVA’s actual incremental cost of supplying the ESP load in each hour. The plaintiff alleges that TVA overcharged for ESP during the summer of 1998 by including in the price of ESP some costs that were added to TVA’s incremental cost. The complaint seeks over $100 million in damages on behalf of Birmingham Steel and the other class members. In September 2002, the district court decertified the class and then dismissed Birmingham Steel’s individual claim without prejudice on a jurisdictional issue. The class lawyers appealed the ruling on class decertification, and in December 2003, the U.S. Court of Appeals for the Eleventh Circuit reversed that ruling and sent the case back to the district court to allow the class lawyers a reasonable time to find a new class representative. The district court has issued an order giving the class lawyers until mid May to find a new class representative. If the class lawyers are unsuccessful, the Eleventh Circuit indicated that the class could then be decertified. At the present time, TVA believes it is more likely than not that a new class representative will not come forward.

On March 18, 2004, North Carolina filed a petition with the EPA under the interstate air pollution provision of the CAA, section 126, seeking a finding that the sulfur dioxide and nitrogen oxide emissions from large fossil-fueled electric generating units in 13 states, including all of TVA’s fossil-fueled units in Tennessee, Alabama, and Kentucky, are contributing to North Carolina’s nonattainment of EPA’s national ambient air quality standards for fine particulate and ozone. EPA acts on section 126 petitions through rulemaking. TVA plans to participate in the rulemaking. If, as a result of the rulemaking, EPA makes a finding that identified sources are significantly contributing to North Carolina’s inability to meet these standards, EPA could establish revised permit limits for these sources. Alternatively, EPA could conclude that its January 2004 proposed Interstate Air Quality rule will resolve any impermissible pollutant transport.

In April 2004, a lawsuit was filed against TVA and 23 electric cooperatives (which provide power to several counties in Tennessee) in federal district court in Nashville, Tennessee. The plaintiffs are Tennessee residents and customers of some of the cooperatives and are seeking class action status on behalf of all similarly situated customers. The plaintiffs allege a number of violations of federal and state law, including the antitrust laws and the Tennessee Consumer Protection Act. They claim that (1) TVA and the cooperatives have unreasonably restrained trade and have created and maintained artificially high power rates, (2) the cooperatives are required by Tennessee law to issue patronage refunds or reduce rates and have failed to do so, and (3) the cooperatives have breached the fiduciary duty owed to the plaintiffs by mismanaging assets, using said assets in an improper manner, and entering into the contracts with TVA which precluded them from issuing patronage refunds or reducing rates as required by law. The plaintiffs have asked the court to issue an injunction barring TVA and the cooperatives from engaging in unfair competition practices, to award the plaintiffs actual and treble damages (based on the alleged violation of antitrust statutes), and to refund the consideration paid by the plaintiffs for power.

TVA is a party to various other civil lawsuits and claims that have arisen in the ordinary course of its business. Although the outcome of these other civil lawsuits and claims cannot be predicted with any certainty, it is the opinion of TVA counsel that their ultimate outcome should not have a materially adverse effect on TVA’s financial position or results of operations.

8. Stewardship Responsibilities

During the first six months of 2004, TVA continued to conduct certain nonpower programs including managing navigable river channels, providing flood control, and overseeing certain recreation facilities. TVA's responsibilities under these nonpower programs include general stewardship of land, water, and wildlife resources. Historically, Congressional appropriations provided most of the funding for TVA's nonpower programs, and TVA has obtained additional funds from revenues and user fees from the nonpower programs. In October 1997, Congress passed legislation that directed TVA to fund essential stewardship activities from various funds, including power funds, in the event that there were insufficient appropriations or other available funds to pay for such activities in any year. Beginning in 2000, Congress stopped providing appropriations to TVA to fund essential stewardship activities. TVA primarily is using power funds (along with user fees and other forms of nonpower revenues) to continue to fund these stewardship activities. TVA spent a total of $46 million of power funds on essential stewardship activities during the first six months of 2004.

9. Subsequent Events

Debt Securities
TVA does not anticipate needing additional funds from its electronotes® program during the remainder of 2004. Accordingly, TVA suspended its electronotes® program for the remainder of 2004 following the electronotes® issuance that closed on April 15, 2004.

In the fourth quarter of 2003, TVA monetized the call option on a public bond issue by entering into a swaption transaction (see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" — "*Liquidity and Capital Resources*" — "*Monetization of Call Options*" in Part II of the 2003 Information Statement). In February 2004, the counterparty to the swaption transaction exercised its option to enter into a swap with TVA, effective April 10, 2004, where TVA will be required to make fixed rate payments to the counterparty of 6.875 percent and the counterparty will be required to make floating payments to TVA based on London Interbank Offered Rate ("LIBOR"). These payments will be based on a notional principal amount of $476.5 million, and the parties will begin making these payments on June 15, 2004.

On April 10, 2004, TVA redeemed all of its 6.875 percent 1993 Series F Power Bonds at 104.5 percent of their par value. The 1993 Series F bonds had a par amount of $476 million and were due December 15, 2043. TVA also redeemed all of its 2001 4.875 percent electronotes® due November 15, 2011, with a par amount of $30 million, its 2001 5.75 percent electronotes® due November 15, 2016, with a par amount of $15 million, and its 2002 3.50 percent electronotes® due September 15, 2007, with a par amount of $26 million, on April 21, 2004.

On May 1, 2004, the coupon rate for the 1999 Series A Putable Automatic Rate Reset Securities ("PARRS") was reset from 6.5 percent to 5.618 percent, with $115 million of the original $525 million redeemed by the bondholders. The bonds mature on May 1, 2029.

Other
On April 30, 2004, TVA received a $15 million reimbursement from Regenesys Technologies Limited for early termination of its contract with TVA (see note 1 — *Project Cancellation*).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") explains the results of operations and general financial condition of TVA. The MD&A should be read in conjunction with the accompanying Financial Statements and the 2003 Information Statement.

Results of Operations
Net income for the second quarter was $121 million, an increase of $31 million compared with the second quarter of 2003. The increase relates to higher operating income of $14 million, higher other income of $8 million, and lower net interest expense of $9 million.

Year-to-date net income was $191 million compared to $404 million for the same period last year, a decrease of $213 million. A significant portion of the decrease relates to two noncash accounting changes implemented during the first quarter of 2003. These changes resulted in a $412 million gain related to a change in accounting for unbilled revenue and a $195 million charge related to a change in accounting for asset retirement obligations.

Operating Revenues. Total sales of electricity increased 328 million kilowatt-hours, or about one percent, for the quarter ended March 31, 2004, over the same period of 2003. The increase in total sales for the six month period ended March 31, 2004, over the same period of 2003, was 766 million kilowatt-hours, or about one percent. A significant portion of the increase for the six month period relates to sales to industries directly served and is attributable to improved economic conditions and business activity for certain industrial customers.

A detailed table of electricity sales for the three and six month periods ended March 31, 2004 and 2003, is as follows:

	Three months ended March 31		Six months ended March 31	
(millions of kWh)	2004	2003	2004	2003
Sales of electricity				
Municipalities and cooperatives	33,205	33,051	63,992	63,935
Industries directly served	7,969	7,933	15,656	15,176
Federal agencies and other	716	578	1,698	1,469
Total sales of electricity	41,890	41,562	81,346	80,580

Total operating revenues increased to $1,879 million in the quarter ended March 31, 2004, compared with $1,792 million in the quarter ended March 31, 2003, an increase of $87 million or nearly five percent. Detailed tables of operating revenues for the three month and six month periods are as follows:

	Three months ended March 31			Six months ended March 31		
(millions of dollars)	2004	2003	Percent Change	2004	2003	Percent Change
Operating revenues						
Sales of electricity						
Municipalities and cooperatives	$ 1,610	$ 1,526	5.5%	$ 3,131	$ 2,972	5.3%
Industries directly served	215	217	(0.9%)	413	403	2.5%
Federal agencies and other	30	28	7.1%	67	59	13.6%
Other revenue	24	21	14.3%	45	40	12.5%
Total operating revenues	$ 1,879	$ 1,792	4.9%	$ 3,656	$ 3,474	5.2%

On August 27, 2003, the TVA Board of Directors ("Board") approved rate actions to fund certain clean-air improvements for the next ten years and to help retain manufacturing jobs in the Tennessee Valley. The Board approved an overall 6.1 percent increase in electric rates. The Board also approved a change in the rate structure to more equitably distribute TVA's costs to serve various customer groups and to make manufacturing rates more competitive with neighboring utilities.

Effective with the October 2003 wholesale billing months, these previously Board approved rate actions were implemented. The rate actions resulted in a 7.4 percent increase in wholesale rates for resale to residential and non-manufacturing loads and a two percent decrease in wholesale rates for resale to large manufacturers. Corresponding changes and adjustments were approved for distributor resale rates and for TVA's rates to directly served customers.

The increase in total operating revenues for the three and six month periods ended March 31, 2004, over the same periods in 2003, resulted primarily from the increase in TVA's electric rates discussed above. The increase in operating revenues from industries directly served for the six month period ended March 31, 2004, over the same period last year is due to higher sales to industrial customers resulting from improved economic conditions and business activity for certain industrial customers.

Fuel and Purchased Power. Fuel and purchased power expense was $518 million for the quarter ended March 31, 2004, compared with $545 million for the quarter ended March 31, 2003, a decrease of $27 million, or five percent. Fuel costs decreased $5 million, or one percent. Purchased power costs decreased $22 million, or 15 percent, due mainly to fewer purchases of off system power.

Fuel and purchased power expense was $948 million for the six month period ended March 31, 2004, compared with $954 million in the same period last year, a decrease of $6 million, or one percent. Fuel costs increased $2 million offset by a decline in purchased power costs of $8 million. Lower cost resources have been available for use, decreasing the need to purchase off system power.

Operating and Maintenance Expenses. Operating and Maintenance ("O&M") costs increased $87 million, or 18 percent, from $480 million to $567 million for the quarters ended March 31, 2003, and 2004, respectively. This increase was primarily due to increased outage costs of $28 million related to more planned outages in comparison with the prior year, increased project costs of $2 million, and increased other O&M costs of $61 million, partially offset by decreased base O&M costs of $4 million. Other O&M costs increased due to higher employee benefit costs of $12 million, increased pension expense of $23 million resulting from actuarial decreases in asset returns and the change in related discount rates, and recognition of termination benefit expense of $23 million not present in the prior year (see *Strategic Plan Implementation* and note 1 — *Reduction in Workforce*).

O&M expenses increased $155 million, or 16 percent, from $968 million to $1,123 million for the six month periods ending March 31, 2003, and 2004, respectively. The increase was primarily due to increased outage costs of $31 million related to more planned outages in comparison with the prior year, increased project costs of $9 million, and increased other O&M costs of $118 million. Other O&M costs increased due to higher benefit costs of $18 million, increased pension expense of $51 million resulting from actuarial decreases in asset returns and the change in related discount rates, increased payroll costs for the month of March of $10 million as TVA accrued for two days of payroll costs in the current year versus one day in the prior year, increased lease/leaseback costs of $11 million, and recognition of termination benefit expense of $23 million not present in the prior year.

Depreciation and Accretion. Depreciation and accretion increased from $264 million to $274 million for the quarters ended March 31, 2003, and 2004, respectively. Depreciation and accretion increased for the six months ending March 31, 2004, from $527 million in the prior year to $546 million in 2004. The increase in depreciation and accretion for both periods resulted from increased capital projects placed in service during 2004.

Project Cancellation. In December 2003, TVA was notified that Regenesys Technologies Limited ("RTL") would not proceed with manufacturing of the fuel cells to be installed in the partially completed Regenesys energy storage plant in Columbus, Mississippi. TVA had invested approximately $36 million in the Regenesys project and, accordingly, TVA has recognized a $36 million loss on the cancellation of the Regenesys project. RTL reimbursed TVA for early termination of the contract in the amount of $15 million, which reduced the net loss to $21 million on the cancellation of the Regenesys project (see note 1 — *Project Cancellation)*.

Other Income. Net other income increased for the three months ending March 31, 2004, from $3 million in the prior year to $11 million in 2004. Approximately $7 million of the increase was primarily from mark-to-market adjustments on the swaption contract. Net other income increased for the six months ending March 31, 2004, from $6 million in the prior year to $15 million in 2004. Approximately $6 million of the increase was primarily from mark-to-market adjustments on the swaption contract (see note 3).

Interest Expense. Net interest expense was $326 million for the quarter ended March 31, 2004, compared with $335 million in the quarter ended March 31, 2003. This reduction reflects lower average interest rates for long-term and short-term debt and a lower level of total outstanding debt during the second quarter of fiscal year 2004. Total outstanding indebtedness, excluding discounts and premiums, as of March 31, 2004, was $23.3 billion with a blended average interest rate for the quarter of 6.05 percent (of long-term and short-term debt); as of March 31, 2003, total outstanding indebtedness, excluding discounts and premiums, was $24.9 billion with a blended average interest rate for the quarter of 5.65 percent (of long-term and short-term debt). The average long-term and short-term interest rates for the quarter ended March 31, 2004, were 6.15 percent and 0.96 percent, respectively, compared with 6.30 percent and 1.26 percent for the same quarter of 2003.

Net interest expense declined $22 million for the six months ended March 31, 2004, from $681 million in 2003 to $659 million in 2004. This reduction reflects lower average interest rates and a lower level of total outstanding debt during the first six months of fiscal year 2004. The blended average interest rate on debt was 5.95 percent for the first six months of 2004 compared with 5.74 percent for the same period of 2003. The average long-term and short-term interest rates for the six months ended March 31, 2004, were 6.13 percent and 0.99 percent, respectively, as compared with 6.37 percent and 1.40 percent in the prior year.

Cumulative Effects of Accounting Changes. The net gain of $217 million from accounting changes during the first quarter of 2003 resulted from a gain related to a change in accounting for unbilled revenues of $412 million, partially offset by a charge related to a change in accounting for asset retirement obligations of $195 million.

Material Changes in Liquidity and Capital Resources

Comparative Cash Flow Analysis - Power Program

Net cash provided by operating activities increased $8 million from $588 million to $596 million for the three month periods ending March 31, 2003, and 2004, respectively. The increase reflects higher operating revenues of $87 million. Cash outlays for interest declined $2 million and other items requiring cash increased $9 million. Other changes included increased cash outlays for O&M costs of $65 million partially offset by decreased cash paid for purchased power of $27 million. Cash provided by working capital components increased $3 million, from $219 million in 2003 to $222 million in 2004. This increase resulted from a larger increase in accounts payable and accrued liabilities of $1 million and a larger increase in accrued interest of $11 million, partially offset by a larger increase in inventories and other of $9 million.

Net cash provided by operating activities increased $1,365 million from $866 million to $2,231 million for the six month periods ending March 31, 2003, and 2004, respectively. The increase reflects $1.5 billion in proceeds received from MLGW for energy prepayments and higher operating revenues of $182 million. Cash outlays for interest declined $7 million, deferred outage activity increased $45 million, and other items requiring cash increased $7 million primarily due to a pension contribution of $11 million not present in the prior year. Other changes included increased cash outlays for O&M costs of $109 million offset by decreased cash paid for purchased power of $2 million. Cash required for working capital components was $26 million for the first six months of 2004 compared with $57 million provided by working capital components in the first six months of 2003. This change resulted from a smaller decrease in accounts receivable of $115 million, a smaller increase in inventories and other of $19 million, larger decreases in accounts payable and accrued liabilities of $14 million, and a larger increase in accrued interest of $27 million.

Cash used in investing activities decreased $66 million for the three months ended March 31, 2004, primarily due to proceeds from the liquidation of investments of $101 million, partially offset by increased expenditures for capital projects of $31 million and an increase in fabrication of nuclear fuel of $13 million due to timing of enrichment services performed.

Cash used in investing activities decreased $5 million for the six month periods ending March 31, 2004, compared to the prior year. The decrease is primarily due to a decrease in fabrication of nuclear fuel of $55 million and an increase in allowance for funds used during construction $14 million partially offset by a decrease in investment proceeds of $46 million and increased capital expenditures of $20 million. Every nuclear plant completed a refueling between March 2003 and March 2004 with two units reflected in 2003 and one unit reflected in 2004. Also, the current year reflects certain inventory that built up during the prior year preparing for the reloads. Both factors contributed to the overall decrease in fabrication of nuclear fuel.

Net cash used in financing activities was $3 million for the three months ended March 31, 2004, compared with $62 million for the same period of 2003. Long-term debt issues increased $522 million and redemptions of long-term debt decreased $301 million. Net redemptions of short term debt totaled $626 million compared to net issues of $37 million in the prior year. There were no proceeds received from call monetizations in the current year compared to $175 million in the prior year.

Net cash used in financing activities was $1,523 million for the six month period ended March 31, 2004, compared with $27 million for the same period of 2003. This change is primarily related to the use of the $1.5 billion in proceeds received from energy prepayments to reduce short-term debt during 2004. Long-term debt issues increased $459 million and redemptions of long-term debt increased $114 million. Net redemptions of short-term debt increased $1,587 million compared to the prior year. There were no proceeds received from combustion turbine financing or call monetizations in the current year compared to $163 million and $175 million, respectively, in the prior year.

Comparative Cash Flow Analysis-All Programs

The Statements of Cash Flows—All Programs are substantially the same as the Statements of Cash Flows—Power Program and should be viewed in conjunction with the Comparative Cash Flow Analysis—Power Program and the Statements of Cash Flows—Power Program.

Working Capital

At March 31, 2004, TVA had negative working capital of nearly $2,197 million, largely attributable to current maturities of long-term debt of $2,486 million and short-term indebtedness of $270 million. The table below summarizes the components of working capital. It is TVA's cash management policy to use short-term notes to meet current obligations, and TVA will continue to use such financing instruments as long as short-term interest rates remain favorable and interest coverage levels are met.

	Power Program		All Programs	
(in millions)	March 31 2004	September 30 2003	March 31 2004	September 30 2003
Current assets	$ 1,980	$ 2,053	$ 1,981	$ 2,054
Current liabilities	(4,177)	(5,901)	(4,178)	(5,902)
Working capital	$ (2,197)	$ (3,848)	$ (2,197)	$ (3,848)
Discount notes <90 days	$ 270	$ 2,080	$ 270	$ 2,080
Current maturities of long-term debt	2,486	2,336	2,486	2,336
Total short-term debt	$ 2,756	$ 4,416	$ 2,756	$ 4,416

Financing Activities

Capital Resources

From October 1, 2003, to March 31, 2004, TVA issued $207 million of electronotes® with an average interest rate of 4.74 percent and also reopened its 2002 Series A bonds for an additional $550 million principal amount at an effective interest rate of 4.22 percent. During this period, TVA redeemed $45 million of electronotes® carrying an average interest rate of 5.57 percent as well as two issues of power bonds of $25 million each with interest rates of 7.50 and 7.65 percent. A bond issue totaling $400 million with an interest rate of 5.00 percent matured. TVA also issued discount notes of nearly $7 billion while redeeming $8.8 billion of discount notes. The average interest rate on the discount notes issued was 0.98 percent.

On April 10, 2004, TVA redeemed all of its 6.875 percent 1993 Series F Power Bonds at 104.5 percent of their par value. The 1993 Series F bonds had a par amount of $476 million and were due December 15, 2043. TVA also redeemed all of its 2001 4.875 percent electronotes® due November 15, 2011, with a par amount of $30 million, its 2001 5.75 percent electronotes® due November 15, 2016, with a par amount of $15 million, and its 2002 3.50 percent electronotes® due September 15, 2007, with a par amount of $26 million, on April 21, 2004.

Energy Prepayment Obligations

During October of 2002, TVA introduced an energy prepayment program, the Discounted Energy Units ("DEU") program. Annually for fiscal years 2003 to 2007, TVA customers may purchase DEU generally in $1 million increments, which entitles them to a $0.025/kWh discount on a specified quantity of firm power over a period of years (5, 10, 15, or 20) for each kilowatt-hour in the prepaid block. The remainder of the price of the kilowatt-hours delivered to the customer is due upon billing. This program allows customers to use the DEU to reduce their overall costs and provides a higher return for available cash.

As of March 31, 2004, TVA had entered into sales agreements for 47.25 DEU totaling $47.25 million for the 2003 program and sales agreements for 7.25 DEU totaling $7.25 million for the 2004 program. TVA is accounting for the prepayment proceeds as unearned revenue and reported the obligations to deliver power as Energy prepayment obligations and Current portion of energy prepayment obligations on the March 31, 2004 Balance Sheets and is recognizing revenue as electricity is delivered to customers, based on the ratio of units of kilowatt-hours delivered to total units of kilowatt-hours under contract. As of March 31, 2004, over $6 million has been applied against power billings on a cumulative basis during the life of the program, of which $2.8 million is attributable to 2004 activity.

During 2004, TVA and its largest customer, Memphis, Light, Gas & Water ("MLGW"), entered into an energy prepayment agreement under which MLGW prepaid TVA $1.5 billion for the costs of electricity to be delivered by TVA to MLGW over a period of 180 months. In exchange for this prepayment, MLGW receives a credit on its monthly bills during this period. The City of Memphis issued bonds with net proceeds of $1.5 billion which were used to fund this prepay arrangement. The principal and interest on the bonds will be payable from MLGW's pledged revenues. The bonds are not obligations of TVA and are not secured by any TVA revenues or property. TVA received proceeds of $1.5 billion from this transaction in December 2003, accounted for these proceeds as unearned revenue, and is reporting the obligation to deliver power as Energy prepayment obligations and Current portion of energy prepayment obligations on the March 31, 2004 Balance Sheets. TVA recognizes revenue as electricity is delivered to customers based on the ratio of units of kilowatt-hours delivered to total units of kilowatt-hours under contract. For the six months ended March 31, 2004, over $40 million was recognized as revenue.

Cash Requirements and Contractual Obligations
TVA's debt maturities and estimated cash commitments as of March 31, 2004, are as follows:

(in millions)	2004*	2005	2006	2007	2008	Thereafter	Total
Debt	$ 2,756	$ 2,000	$ 2,621	$ 977	$ 91	$ 14,884	$ 23,329
Leases	27	54	50	45	39	94	309
Lease/leaseback	36	84	85	85	89	1,384	1,763
Power purchase obligations	79	150	150	129	114	2,618	3,240
Other purchase commitments	795	629	454	259	92	96	2,325
Fuel purchase obligations	710	962	743	401	333	686	3,835
Pension contribution	11	–	–	–	–	–	11
Total	$ 4,414	$ 3,879	$ 4,103	$ 1,896	$ 758	$ 19,762	$ 34,812

In addition to the cash requirements above, TVA has contractual obligations related to energy prepayments (see Energy Prepayment Obligations above).

(in millions)	2004*	2005	2006	2007	2008	Thereafter	Total
Energy prepayment obligations	$ 53	$ 105	$ 106	$ 106	$ 105	$ 1,033	$ 1,508

* Period April 1 – September 30, 2004

As of March 31, 2004, the decommissioning trust funds totaled approximately $729 million. The present value of the estimated future decommissioning costs calculated in accordance with Nuclear Regulatory Commission ("NRC") requirements was $974 million. In October of 2003, TVA submitted a supplemental decommissioning funding status report to the NRC. The report contained a yearly schedule of projected decommissioning trust fund balances which provides assurance that adequate funds will be available to decommission the nuclear plants when necessary. (Estimates of fund adequacy are based on current regulatory assumptions.) TVA will make contributions to the trust fund or provide other methods of funding assurance if necessary to match its schedule of projected decommissioning fund balances. TVA's decommissioning fund met the 2003 funding target of approximately $606 million.

Strategic Plan Implementation
To prepare for a more competitive electricity market, TVA has implemented a strategic planning process that analyzes how the new market may function, what competitive pressures TVA will face, and how TVA must prepare now for success in the future. More specifically, the process focuses on what TVA needs to do in order to preserve TVA's core mission to provide low-cost power, promote economic prosperity in the Valley, and enhance environmental stewardship, and to remain financially viable in a competitive market.

As part of its strategic plan, TVA is striving to enhance its financial flexibility by reducing debt and other fixed costs. TVA expects a substantial portion of the necessary budget reductions to come from (1) reductions in capital projects, with resulting reductions in spending for materials and contractors, (2) reductions in contractors supporting ongoing work, and (3) a methodical review of all TVA programs and functions, including staffing levels. To this end, organizations within TVA are performing program and staffing reviews to identify surplus staffing situations. In areas where surplus staffing exists, TVA has asked for employees to apply for voluntary resignations beginning in February 2004. To the extent there are not enough volunteers, TVA is conducting an involuntary Reduction in Force ("RIF"). TVA expects the majority of voluntary resignations and involuntary RIFs to occur in 2004. Implementation of the change in staffing levels is estimated to cost between $27 million and $36 million in termination benefits. TVA has recognized expense in the amount of $23 million for termination benefits incurred as of March 31, 2004.

The plan also recommends a reduction in financing obligations target of $3 billion to $5 billion over the next ten to 12 years but notes that reductions in financing obligation targets will be updated annually depending on TVA's priorities and changing market conditions.

Reservoir Operations Study
Over the past two and one half years, TVA has conducted a comprehensive Reservoir Operations Study ("ROS") to review the policy for operating the Tennessee River and reservoir system. As part of this process, TVA developed a preferred alternative that would enhance recreational opportunities, flood risk reduction at locations along the main-stem reservoir, and navigation while reducing the potential impacts of other alternatives on power generation and costs, water quality, aquatic resources, wetlands, migratory waterfowl and shorebirds, and shoreline erosion. It is expected that the implementation of the ROS will have the effect of increasing power generation costs and annual operating costs and will require a moderate capital investment. TVA staff plan to submit the preferred alternative to the TVA Board for approval in May 2004.

New Accounting Pronouncements
In January 2003, the FASB published Interpretation No. 46, *Consolidation of Variable Interest Entities*, which was revised by Interpretation No. 46R ("46R") in December 2003. This interpretation explains how to identify variable interest entities ("VIEs") and how an enterprise assesses its interests in a VIE to decide whether to consolidate that entity. It also clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The interpretation applies to nonpublic enterprises, and it becomes effective for TVA beginning October 1, 2005, for VIEs created on or before December 31, 2003, and immediately for VIEs created after December 31, 2003. At this time, TVA is in the process of evaluating the requirements of this interpretation and does not yet know the impact of its implementation, which may or may not be material to TVA's results of operations or financial position.

In December 2003, the FASB issued SFAS No. 132 (revised), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, which is designed to improve financial statement disclosures for defined benefit plans and replaces existing FASB disclosure requirements for pensions. The guidance is effective for fiscal years ending after December 15, 2003, and for quarters beginning after December 15, 2003. TVA adopted this standard for the quarter beginning January 1, 2004 (see note 5).

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Through the normal course of its business, TVA is exposed to various market risks, including changes in interest rates, foreign currency exchange rates, and certain commodity and equity market prices. TVA is also exposed to losses in the event of counterparties' nonperformance and accordingly has established controls to determine the creditworthiness of counterparties in order to mitigate exposure to credit risk.

Weather Risk
Regarding weather risk, TVA is subject to short-term variability in weather, including both temperature variations and drought conditions affecting hydro-electric generation. Over periods of one year or longer, however, the financial risks associated with weather are modest, for reasons including averaging of effects over a large service territory, averaging of effects over different times of year for this "double-peaking utility," and nominal changes in hydroelectric availability during high-value periods.

Operational Risk
Due to the size and diversity of the TVA generation fleet and the redundancy and robustness of the transmission system, the financial risks associated with the operation of the system are modest over periods of one year or longer.

Risk of Loss of Customers
The 1959 amendments to the TVA Act provide that, subject to certain minor exceptions, neither TVA nor its distributors may be a source of power supply outside TVA's defined service area. This statutory provision is referred to as the "Fence" because it "fences" TVA in, essentially limiting TVA to power sales within a defined service territory that includes most of Tennessee and parts of six other states: Kentucky, Mississippi, Alabama, Georgia, North Carolina, and Virginia. (See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*"—"*TVA and Competition*" in Part II of the 2003 Information Statement.)

While the Fence confines TVA to the Tennessee Valley, the so-called "anti-cherrypicking provision" provides that the Federal Energy Regulatory Commission cannot order TVA to deliver power from an outside source to a customer if the power would be consumed within the Fence. Thus, TVA cannot be ordered to provide access to its transmission lines for the purpose of delivering power to wholesale customers within the Valley.

The "anti-cherrypicking provision" minimizes the financial exposure of TVA to loss of distributor customers due to their limited access to transmission resources.

In 2003, TVA received notices from four distributors of TVA power to terminate their power contracts. The notice from Bowling Green Municipal Utilities terminates its power contract with TVA in October 2007, the notice from Warren Rural Electrical Cooperative Corporation terminates its power contract with TVA in April 2008, and the notice from Duck River EMC terminates its power contract with TVA in August 2008. The notice from Meriwether Lewis Electrical Cooperative ("MLEC"), which TVA received in October 2003, was rescinded in March 2004, and as a result of this action, TVA remains MLEC's sole provider of wholesale power.

In 2004, TVA also received notice from Monticello Electric Plant Board that terminates its power contract with TVA in November 2008 and notice from Glasgow Electric Plant Board that terminates its power contract with TVA in December 2008. In 2003, sales to the distributors who have given notice to terminate their power contracts with TVA (excluding MLEC) were $205 million and represented approximately 3.0 percent of TVA's total electricity sales.

Derivatives
To manage the volatility attributable to its various risk exposures, TVA has entered into various nontrading derivative transactions. TVA risk management policies provide for the use of derivative financial instruments to manage financial exposures but prohibit the use of these instruments for speculative trading purposes. TVA accounts for these derivative instruments in accordance with the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*.

Derivative contracts utilized by TVA include currency and interest rate swap agreements. These currency and interest rate swap agreements qualify for cash flow hedge accounting treatment under SFAS No. 133. Consequently, the effective portions of gains and losses related to these types of contracts are deferred and reported in Accumulated other comprehensive loss with corresponding adjustments to the derivatives' book values until the contracts actually settle. The ineffective portions of the derivatives' changes in fair value are recognized immediately in the determination of earnings.

Other derivative contracts include various purchased power option contracts, coal and natural gas contracts, certain swaption agreements, and purchased options related to emission allowances. Hedges entered into in conjunction with these contracts qualify for fair value hedge accounting under SFAS Nos. 133 and 138 with changes in market values deferred and recognized as regulatory assets and/or liabilities in accordance with SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*. Such treatment reflects TVA's ability and intent to account for these derivative instruments on a settlement basis for rate-making purposes. The ineffective portions of the derivatives' changes in fair value are recognized immediately in the determination of earnings.

Financial Trading Pilot Program
A financial trading pilot program to reduce TVA's economic risk exposure associated with TVA's physical electricity generation, purchases, and sales was approved by the Board on September 11, 2003. The program allows TVA to trade certain futures contracts and options on futures contracts for hedging purposes only. Trading covered by this authorization will be for the purpose of hedging risks associated with the cost of natural gas and fuel oil for TVA's power generation operations and risks under power purchase or sales arrangements where the energy price varies based upon a fuel index. Trading of authorized futures contracts and options on futures contracts shall be limited solely to those transactions that hedge or otherwise limit economic risks directly associated with TVA's fuel requirements for power generation or with the aforementioned type of power purchase or sale arrangement. Transactions shall be limited to trading of the NYMEX futures contracts and options on futures contracts related to natural gas and fuel oil. Trading is not authorized for speculative purposes. The pilot program extends through August 31, 2005. There were no trades in 2003 or in the first two quarters of 2004 which ended March 31, 2004.

CONTROLS AND PROCEDURES

TVA's management, including the Chief Financial Officer ("CFO") and the members of the Board, have conducted an evaluation of the effectiveness of TVA's disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based on that evaluation, the members of the Board and CFO concluded that the disclosure controls and procedures are effective in providing reasonable assurance that all material information necessary and appropriate for disclosure in this Quarterly Report has been made known to them in a timely fashion. TVA's disclosure controls and procedures are effective in providing reasonable assurance that information to be disclosed in TVA's reports is accumulated and communicated to management, including the members of the Board and the CFO, as appropriate, to allow timely decisions regarding disclosure. There have been no changes in internal controls over financial reporting during the quarter ended March 31, 2004, that have materially affected, or are reasonably likely to materially affect, TVA's internal controls over financial reporting. TVA management believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company can be detected. TVA's controls and procedures can only provide reasonable, not absolute, assurance that the above objectives will be met.

It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

OTHER INFORMATION

BOARD ACTIONS

At the January 14, 2004, meeting of the TVA Board of Directors ("Board"), the Board approved TVA's Strategic Plan, "A Framework for a Competitive Future, January 2004."

As of January 12, 2004, the Board approved a contract pricing policy applicable to negotiations with distributors who have given notice that they are terminating their wholesale power contract with TVA and who later seek to negotiate a return to TVA service before that contract expires.

As of January 24, 2004, the Board approved delegation of authority to the Executive Vice President and General Counsel to add and remove Disclosure Control Committee members, and to the Disclosure Control Committee to amend TVA's Corporate Accountability and Disclosure Plan and Disclosure and Financial Ethics Code.

ADDITIONAL INFORMATION

Regulatory Actions

<u>Security</u>
The Nuclear Regulatory Commission ("NRC") issued a series of Advisories and Orders to further strengthen security at NRC-licensed facilities and increase the controls placed on nuclear materials. The nuclear energy industry, including TVA, has increased security spending to implement these additional security measures. Compliance with these additional measures could require significant expenditures by TVA and the nuclear power industry over the next several years.

<u>Nuclear Insurance</u>
The Price-Anderson Act provides coverage for the general public in the event of a nuclear accident. On March 30, 2004, the NRC exempted a nuclear plant from the retrospective call of the Price-Anderson Act's secondary financial protection plan. Consequently, there are now 104 licensed units participating in the secondary financial program, which means that the total amount available for an extraordinary nuclear event is reduced to $10.76 billion from $10.86 billion.

<u>License Renewal Application</u>
TVA submitted its license renewal application for Browns Ferry Nuclear Plant on December 31, 2003. The NRC has set a 28-month schedule to review the submittal. The NRC staff's goal is to complete a review in 22 months if there is no hearing and 30 months if a hearing is held. The NRC said the longer schedule was necessary due to "the complexity and uniqueness of the application" since it involves Browns Ferry Unit 1 which has been shut down for 19 years.

Legislation

On February 12, 2004, Senate Energy and Natural Resources Committee Chairman, Pete V. Domenici, R-NM, introduced a new "slimmed down" national energy policy bill, S. 2095 ("S. 2095"). Although "slimmed down," S. 2095 contains the same provisions with respect to TVA that were included in the energy bill that came out of the Conference Committee, but did not become law, in the last session of Congress.

Among other things, S. 2095 would (1) convert TVA's Board of Directors into a part-time Board of nine members serving sequenced five-year terms and create a new position of Chief Executive Officer to manage TVA's day-to-day operations, (2) authorize the Federal Energy Regulatory Commission ("FERC") to review TVA's transmission rates and terms and conditions of service to determine whether they are comparable to those TVA imposes on itself and whether they are unduly discriminatory, and (3) authorize FERC to order refunds if the rates charged by TVA and other non-jurisdictional entities on wholesale electricity transactions for a term of 31 days or less are not just and reasonable. In addition, S. 2095 contains some unclear language that might be interpreted as inadvertently repealing the "anti-cherrypicking provision" (as defined in the 2003 Information Statement in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*"—"*TVA and Competition*"). TVA does not believe that this provision of S. 2095 was included with the intention of repealing the "anti-cherrypicking provision" and will work to obtain an appropriate modification or a floor colloquy stating that no such repeal was intended.

Management

On February 13, 2004, John Scalice, Chief Nuclear Officer and Executive Vice President, TVA Nuclear, announced that he will retire from TVA on June 1, 2004. Karl Singer, who currently is serving as Senior Vice President, Nuclear Operations, will assume the position of Chief Nuclear Officer and Executive Vice President, TVA Nuclear, on June 1, 2004.

On March 3, 2004, Mark Medford, Executive Vice President, Customer Service and Marketing, announced that he will retire from TVA effective December 2004. He will work actively with the Board and his successor to ensure a smooth transition during the next few months.

Customers

Contract Reinstatement

In March 2004, Meriwether Lewis Electric Cooperative ("MLEC") rescinded its notice to terminate its power contract with TVA, which contract would have otherwise ended in 2007. As a result of this action, TVA remains MLEC's sole provider of wholesale power. In 2003, MLEC purchased about 0.6 percent of the power TVA sold to its municipal and cooperative power customers.

Operations

Outages

TVA completed the installation of a major scrubber modification on December 20, 2003, at Widows Creek Fossil Plant Unit 8, which has a net dependable capacity rating of 471 megawatts. Shortly after the modification the unit did not meet applicable opacity limits. TVA has made progress in decreasing opacity and is in the process of modifying the scrubber hardware to further reduce opacity on this unit. TVA will continue to work with the State of Alabama to determine the conditions under which TVA will operate the unit other than for testing purposes until it is in compliance with the applicable opacity limits.

Browns Ferry Unit 1

In May 2002, the TVA Board initiated activities for the return of Browns Ferry Unit 1 to service in order to meet long-term energy needs in the Tennessee Valley. It is anticipated the Browns Ferry Unit 1 recovery project will add approximately 1,280 megawatts of generation at a cost of approximately $1.8 billion (excluding capitalized interest ("AFUDC")). Unit 1 is expected to return to service in 2007, and the additional generating capacity is expected to lower TVA's average cost of power and provide additional cash flow. As of March 31, 2004, TVA had incurred approximately $628 million of costs (including AFUDC of $24 million) on the Browns Ferry Unit 1 restart project, the planned amount for this period. The restart project was about 43 percent complete at that date as scheduled.

TVA Nuclear

In letters dated March 3, 2004, the NRC told TVA Nuclear that TVA had safely operated its nuclear units during the past year. The NRC also said that only normal inspections, as well as inspections related to security orders and any changes in security requirements, would be conducted this year as a result of annual assessments of the TVA nuclear facilities.

Other

Participation in Nuclear Design Teams

TVA is a member of two teams of companies that have submitted proposals to the Department of Energy for cost-sharing studies to investigate the potential for advanced nuclear reactor designs.

One team includes Toshiba Corporation, General Electric Corporation, Bechtel Corporation, U.S. Enrichment Corporation, Incorporated, and Global Nuclear Fuel-Americas. This team is validating the cost and schedule of using TVA's Bellefonte Nuclear Plant in Alabama for an advanced boiling water reactor.

The other team consists of nine companies investigating the NRC's new licensing process for nuclear power reactors and completing design work on two new advanced reactors. In addition to TVA, this team consists of six utilities, Exelon Generation, Entergy Nuclear, Southern Company, Constellation Generation Group, Duke Energy, and EDF International North America, and two vendors, General Electric Corporation and Westinghouse. TVA is providing staffing assistance to this team.

Participation in Regional Compliance and Enforcement Program

TVA and utilities representing about two-thirds of the generation, transmission, and load in Southeastern Electric Reliability Council ("SERC") have signed a regional compliance and enforcement program ("RCEP") that requires participants to face penalties for non-compliance with certain electric reliability standards adopted by the North American Electric Reliability Council. The RCEP was proposed to enhance SERC processes and lessen the possibility of disruptions in the transmission grid.

CERTIFICATIONS OF THE MEMBERS OF THE TVA BOARD OF DIRECTORS

Glenn L. McCullough, Jr., Skila Harris, and Bill Baxter individually certify that:

1. I have reviewed the Tennessee Valley Authority Quarterly Report ("Report") for the quarterly period ended March 31, 2004;

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this Report;

3. Based on my knowledge, the unaudited financial statements and other financial information included in this Report fairly present in all material respects the financial condition, results of operations, and cash flows of the Tennessee Valley Authority as of, and for, the periods presented in this Report;

4. The other certifiers and I are responsible for establishing and maintaining disclosure controls and procedures for the Tennessee Valley Authority and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Tennessee Valley Authority is made known to us by others particularly during the period in which this Report is being prepared;

   b) evaluated the effectiveness of the Tennessee Valley Authority's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and

   c) disclosed in this Report any change in internal control over financial reporting that occurred during the quarter ended March 31, 2004, that has materially affected, or is reasonably likely to materially affect, the Tennessee Valley Authority's internal control over financial reporting; and

5. The other certifiers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Tennessee Valley Authority's auditors and the Inspector General of the Tennessee Valley Authority:

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Tennessee Valley Authority's ability to record, process, summarize, and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Tennessee Valley Authority's internal control over financial reporting.

Date: May 12, 2004

Glenn L. McCullough, Jr.	Skila Harris	Bill Baxter
Chairman	Director	Director

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Michael E. Rescoe, certify that:

1. I have reviewed the Tennessee Valley Authority Quarterly Report ("Report") for the quarterly period ended March 31, 2004;

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this Report;

3. Based on my knowledge, the unaudited financial statements and other financial information included in this Report fairly present in all material respects the financial condition, results of operations, and cash flows of the Tennessee Valley Authority as of, and for, the periods presented in this Report;

4. The other certifiers and I are responsible for establishing and maintaining disclosure controls and procedures for the Tennessee Valley Authority and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Tennessee Valley Authority is made known to us by others particularly during the period in which this Report is being prepared;

b) evaluated the effectiveness of the Tennessee Valley Authority's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and

c) disclosed in this Report any change in internal control over financial reporting that occurred during the quarter ended March 31, 2004, that has materially affected, or is reasonably likely to materially affect, the Tennessee Valley Authority's internal control over financial reporting; and

5. The other certifiers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Tennessee Valley Authority's auditors and the Inspector General of the Tennessee Valley Authority:

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Tennessee Valley Authority's ability to record, process, summarize, and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Tennessee Valley Authority's internal control over financial reporting.

Date: May 12, 2004

Michael E. Rescoe
Chief Financial Officer and Executive Vice President, Financial Services

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